SYNDICAT EUROPEAN TRADE UNION CONFEDERATION

BS/sw

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Mr Olli Rehn
Commissioner for Economic and Monetary Affairs and Vice-President of the European Commission

European Commission
B- 1049 Brussels
[Letter sent by e-mail: olli.rehn@ec.europa.eu]

Dear Commissioner,

At the European Trade Union Confederation, we were interested to read your upbeat August blog from sunny Spain. http://blogs.ec.europa.eu/rehn/spanish-sketches-a-d-2013-can-spain-achieve-what-ireland-and-latvia-did/

It is not surprising that you should grasp any green shoots of hope in Europe's current bleak economic landscape. Indeed the ETUC would also be the first to welcome indications of real recovery capable of easing the hardship still infecting the lives of millions of working people across Europe.

But sadly we have to disagree with your analysis. You point to some recent trade and employment figures as signs that Spain could be on the way to emulating Irish and Latvian ‘success stories’, even though you admit that some changes could be seasonal. To consolidate this supposed progress, you back the IMF call for a ‘social agreement’, with trade unions accepting ‘significant further wage moderation’: in other words, cutting pay (the IMF suggests 10% over two years) and tightening the screw on households already struggling to cope with austerity.

Yet have Ireland and Latvia really achieved the economic miracle you imply? Was it sticking to a rigid austerity regime and squeezing wages that provided the answer to their woes?

Hardly. Eurostat data on employment since the start of the crisis show that Latvia has shed 20% of all jobs, and Ireland 15%. The loss of full-time jobs has been even more dramatic: reaching one-fifth in Ireland and almost one-third in Latvia. This is hardly an ‘achievement’ for Spain to aspire to.

Perhaps, nonetheless, Ireland and Latvia have done better than other austerity-afflicted countries? Not so. The proportion of jobs lost has been similar to – or worse than – that of Greece, Portugal and Spain.

What changed in Latvia was that policymakers, instead of adhering blindly to the creed of austerity, decided to put a halt to the policy that was wrecking growth and leading to depression. The real lesson from Latvia is that action to restore growth must come first, before measures to consolidate public finances can be successful. In short, Europe should delay applying a 3% deficit limit until economies return to health and a strong recovery is secured – probably around 2016-2017.

In Germany, workers have already concluded agreements on cutting pay or increasing hours, in exchange for safeguarding jobs; in France recent development make this possible. According to the European Commission's DG Ecfin, this is a 'positive' development that will help these countries to compete with crisis-bound Member States.[1]

What this means is that you and the Commission are promoting a downward spiral of wage erosion, cutting ordinary people's standard of living in the interests of blind ideology. If you succeed in cutting wages in Spain, you will then turn to France; if you succeed in France, then you will turn to southern countries, asking them to lower their wages. Today it is Spain, tomorrow France, Belgium, the Netherlands, or anywhere where pay and conditions are protected by trade union bargaining or legal minimum wages. Within the internal market, wage developments in one state have a direct impact on others, and ruthless competition is replacing solidarity as an EU principle.

In addition a policy of wage cutting will result in another recession. As we predicted, austerity is not working. Unemployment rates are at an unacceptable level, recovery is sluggish, where it exists at all. This summer's Eurobarometer survey showed that public trust in the EU has fallen to a record low, with more than two-thirds of Europeans feeling their voice is not heard in decision-making.

Now Germany predicts that Greece will need a third bail-out, while the US-based Levy Institute warns that on current policies the country could be locked in recession until 2016, with the loss of a further 300 000 jobs. Other commentators estimate that in the absence of strategies to support growth, Spanish debt will soar to 110% by 2018. Across southern Europe in particular, rigid austerity has undermined growth and job creation, putting at risk the life chances of a whole generation. The IMF has itself acknowledged that a loosening of the screws was inevitable and desirable.

In the Commission, your forecasts rely on 2013 being the year of the big turnaround, vindicating your policies. For many Europeans, this remains a pipe dream, whereas trade unions are working on the ground to maintain decent living standards for workers by defending, not cutting wages.

Yours sincerely,

Bernadette Ségol
General Secretary

[1] *See: http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/ocp136_en.pdf (page 44).*

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